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C O N F I D E N T I A L SECTION 01 OF 04 MANAMA 000238

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COMMERCE FOR SECRETARY GUTIERREZ
ALSO FOR ITA/MAC/AMESA - T HOFFMAN
ALSO FOR FCS/ANESA - B ORR
STATE FOR NEA/ARPI, EB
USTR FOR J BUNTIN

E.O. 12958: DECL: 02/14/2016

TAGS: [PREL](#) [ECON](#) [ETRD](#) [BEXP](#) [OVIP](#) [BA](#) [BILAT](#) [ECTRD](#) [OFFICIALS](#)
SUBJECT: SCENESETTER FOR COMMERCE SECRETARY GUTIERREZ'S
FEBRUARY 26-28 VISIT TO BAHRAIN

Classified by Ambassador William T. Monroe for reasons 1.4
(b) and (d).

FTA Implementation and Outreach

1. (C) Mr. Secretary, we warmly welcome your February 26-28 visit to Bahrain. Interest in doing business with the United States is at a peak with recent ratification by both countries' legislatures of the U.S.-Bahrain Free Trade Agreement (FTA). We are now working closely with the senior Bahraini leadership on finalizing the last pieces of implementing legislation - all related to protection of intellectual property rights - so that the agreement can enter into force in the very near future.

2. (C) Our greatest challenge related to the FTA is the deficit in understanding about what the agreement means for Bahraini business people. Some members of the private sector believe that bringing the benefits of the FTA to Bahrain is a government responsibility; others think American trade and investment will naturally gravitate to Bahrain without any action on their part. Your visit represents a perfect opportunity to highlight for Bahrainis and others in the region the potential benefits of a free trade agreement with the United States, the U.S. vision of a Middle East Free Trade Area by 2013, and to spur Bahraini business people to seek out opportunities to enhance their trade and investment relations with American companies.

Suggested Points to Raise

3. (C) We have requested meetings for you with Crown Prince Shaikh Salman bin Hamad Al Khalifa, Minister of Industry and Commerce Dr. Hassan Fakhro, Minister of Finance Shaikh Ahmed bin Mohammed Al Khalifa, and Economic Development Board CEO Shaikh Mohammed bin Issa Al Khalifa. In your meetings, we suggest you raise the following points:

-- FTA Implementation: The FTA cannot be implemented, and business people from both countries cannot benefit from it, until Bahrain passes all required IPR legislation. Members of Congress are asking questions about the need to rush FTAs through Congress when our partner countries take so long to implement the agreements. We urge Bahrain to finalize all outstanding issues as soon as possible, shooting for a July 1 implementation date at the latest.

-- Enhancing Trade and Investment Relations: We understand that Bahraini business people are anxious to benefit from the FTA and are asking questions about how they can find commercial opportunities under the agreement. We proposed this regional conference with exactly this question in mind and hope it will kick off the trade promotion component of the FTA. We urge the Bahraini government and the FTA Implementation Committee to continue to spread awareness about the agreement. It provides a framework for expanding trade and investment relations between our two countries, but it is up to the business people themselves to negotiate the deals and conclude the business that will bring the benefits of the agreement to Bahrain.

-- Trade Missions: We are pleased that the EDB and AmCham Bahrain conducted a trade mission to Washington and New York in December. Ambassador Balooshi's travels to key cities and markets in the United States to promote business with Bahrain is an important activity. The Bahraini government and the FTA Implementation Committee should plan additional activities in the United States, such as trade missions and road shows. Using our network of Commercial Service offices in the United States and around the world and our

relationships with business organizations, we are promoting the agreement and can assist you in doing so. Outreach is the key to realizing the benefits.

Points the Bahrainis Will Raise

14. (C) Your Bahraini interlocutors will likely raise the following issues:

-- U.S. Promotion of FTA: Realizing that Bahrain is a small country with little name recognition in the United States, the Bahraini officials will likely ask that the Department employ its resources and linkages to promote the FTA and doing business in Bahrain.

-- CP Visit in April: Crown Prince Salman is currently planning a visit to the U.S. in April that will include a focus on the FTA. He and your other interlocutors may ask for your advice and support in making the visit a success, including ways to reach out to business communities in key U.S. markets.

-- Bahrain as a Regional Center: Bahrain seeks to market itself as a regional center for foreign companies, with a focus on the services sector. It already has a strong regional reputation for its financial sector and for the Bahrain Monetary Agency's regulation of the industry. Bahrain also wants to expand into tourism, education, health, and information technology. The officials may ask your views and advice on how to build up the country as a regional center.

Issues Briefs

Economy

15. (SBU) Bahrain is widely considered to be one of the most open countries in the region and generally follows an open-market philosophy. It has been able to make significant progress in recent years in its ongoing process of economic liberalization, diversification of national income, and openness to investment policies. Bahrain has already amended existing legislation and promoted new laws aimed at facilitating and encouraging foreign investment, and senior government officials believe it is imperative to continue working toward economic diversification and increase the volume of investment in services, tourism, industry, and the financial sector. Officials make frequent public statements citing the importance of foreign direct investment, bolstering the private sector's role in the economy, lessening the burden on government, and eventually decreasing government subsidies.

16. (SBU) The 2006 Heritage Foundation's "Index of Economic Freedom" ranked Bahrain 25th, marking a decline from the previous year's ranking of 20th. The Index rated Bahrain as "mostly free," and the Kingdom was recognized as the freest among the Arab economies. The United Nations Conference on Trade and Development's World Investment Report 2005 ranked Bahrain as the highest and best among all Arab countries for its FDI performance, reporting an FDI influx of \$865 million in 2004, an increase of over 40 percent from 2003, and third among all Arab countries for its potential FDI performance. The UN Economic and Social Commission for Western Asia estimated Bahrain's 2005 real economic growth at seven percent, the highest in the Arab world.

17. (SBU) Crown Prince Salman takes the lead on the Kingdom's economic reform initiatives. Following ministerial changes in January 2005, King Hamad issued Royal Decree No. 31 for 2005 delegating the national economic and investment portfolio to the Economic Development Board, which had formerly served as an economic think tank. Under the chairmanship of the Crown Prince, the EDB was entrusted with the implementation and execution of a three-tiered reform initiative, focusing on labor, economic and education reform. The EDB's main strategic functions are to promote investment in key economic sectors, support and encourage foreign investment, attract foreign companies to establish a presence in Bahrain, support and develop local entrepreneurial skills, simplify and eliminate investment obstacles, and secure Bahrain's economic leadership and competitiveness in the region.

Status of FTA

18. (SBU) The President signed the U.S.-Bahrain FTA into law on January 11 of this year following ratification by Congress in late 2005. The Bahraini parliament ratified and the King approved the agreement in July 2005. Congressional requirements for U.S. ratification generated some blowback in

Bahrain, most notably when Bahrain formally closed its Israel boycott office in connection with ratification. Bahrain also committed to seek passage of additional labor legislation. The agreement will enter into force when the Bahraini parliament approves a few outstanding IPR laws (copyright, international treaties) and the government implements regulations covering several other IPR areas. Bahrain's parliament voted strongly in favor of ratification of the FTA but quick action on the IPR legislation is not guaranteed. We were disappointed the GOB did not complete all the implementing legislation in time for a January 1 entry into force. We are now pushing for the FTA to enter into force on April 1, but that date is slipping and July 1 appears to be more realistic. We must advocate rapid movement on any outstanding issues holding up full implementation of the agreement.

Political Environment

19. (C) King Hamad launched a political and economic reform program when he ascended to the throne in 1999 following the death of his father, Emir Shaikh Issa. The King held a referendum on a National Action Charter in 2001 and issued a new constitution in early 2002 that called for municipal and parliamentary elections later that year. Because of discrepancies between the Charter and the constitution, leading Shia opposition group Al Wifaq and others led a boycott of the parliamentary elections, claiming both the constitution and parliament are illegitimate. That said, some 53 percent of eligible voters participated in the 2002 elections for the lower house of parliament, the Council of Representatives (COR), which were judged to be mostly free and fair. The COR is increasingly growing into its role as a legislative, monitoring, and accountability body and had a real influence on the biannual budget issued by the government in mid-2005. The country will again hold both municipal and parliamentary elections, in May and October 2006 respectively. There are strong indications that the boycotters will decide to participate this time, providing a major boost for the reform program and the legitimacy of the institution of parliament.

10. (C) As Al Wifaq edges closer to participation, a hardline breakaway Shia group, known as the Haq Movement, has adopted more confrontational tactics in dealing with the government. There have been repeated clashes between security forces and Haq Movement supporters (never numbering more than a few hundred) since the end of November 2005. The atmosphere is likely to remain charged as Al Wifaq and Haq battle for the support of the Shia community, which represents some 70 percent of Bahrain's citizens, and as the October elections approach. Many officials and business people have complained that the tension, protests, and clashes are hurting Bahrain's commercial climate.

U.S. Corporate Presence

11. (U) Over 200 American companies have a presence in Bahrain, not including agencies. All of the big names in consumer and industrial products are present, and American franchises blanket the country. Many financial institutions, including American Express and Citibank, have established their regional offices in Bahrain, and companies such as Bechtel, Parsons, and KBR pursue infrastructure and development projects. FedEx has its regional hub in Bahrain. Two large joint ventures are Kimberly-Clark Bahrain and Shaw-Nass, a manufacturer of complex pipe systems for the petroleum industry. The local AmCham received formal recognition from the U.S. Chamber of Commerce in early 2005 and recently organized and led a trade mission to Washington and New York. The Embassy works closely with the AmCham to develop it as an institution. Total trade between the U.S. and Bahrain (in \$ millions) was:

Year	US Exp	US Imp	Tot Vol	Trd Bal
2005	350.6	431.6	782.2	-80.9
2004	301.8	405.3	707.1	-103.5
2003	508.4	378.2	886.6	130.2
2002	419.5	394.7	814.2	24.8
2001	432.8	424.0	856.8	8.8
2000	448.9	337.6	786.5	111.3

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